DIALOGUE

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Distribution and Some Surprising Trends You'll Want to Know About

An interview with Robert (Bob) A. Kerzner, CLU®, ChFC®

By Michael C. Davidson, MSM, CLU®, CAP®

Mike: Strong distribution is essential to our industry; yet there are external forces that are impacting our business today. What do you believe are the things that will influence distribution in the future?

Bob: Three things that will influence distribution the most are regulation, demographics and technology.

Let me start with demographics. The U.S. population is becoming more diverse, and we have that trend continuing for the next 30 years. In fact, by 2060, the number of minorities will double, collectively representing the largest segment of the U.S. population.

We're also getting older. Ten thousand Americans are turning 65 every day between now and right through 2019, but what they may not have thought about is that by 2056, for the first time ever, Americans aged 65 and over are projected to outnumber those who are under age 18.

Households are also changing. Demographics are not just about the population, but also about how people live. Consider that a married couple with children aged under 18 is down from 40 percent since 1970. The number of one-person households has increased, and today they're more than 27 percent of the population. In 1970, single-family households were only 17 percent. When you think about four in ten households with children under age 18, the mothers are either the sole or primary source of income for the family. When you think about that and that young people are marrying later, having children later, all of these demographics represent a huge shift in how people marry, have children, think about life insurance, think about retirement — advisors' practices and insurance companies' thinking need to change along with it.

Regulation is also key. A number of European and other countries, like Australia, have banned commissions, and this is beginning to be a bit of a worldwide trend. In this country, there has been a lot of discussion about fiduciary standards. This is a significant issue and would materially alter the distribution of products.

If you also think about the timing, this could not be happening at a worse time. Life insurance ownership is at an all-time low. Thirty percent of households don't have any life insurance, individual or group. Individual life insurance is down significantly, and that trend has been continuing for 30 years. In seven out of ten households where there are children under 18, they tell us they would be in immediate (or within 60 days) financial distress at the death of the primary breadwinner.

We know that less than half of pre-retirees are confident they're going to be able to achieve the lifestyle they had in mind in retirement, and significant numbers of them are really worried about running out of money. Less than half of the adult population is saving systematically in a qualified retirement plan. So, having fewer advisors is probably not going to help people make the right financial decisions.

Technology is changing all of consumers' expectations. It's certainly altering how they buy things. So advisors need to find better ways, in spite of compliance issues, to leverage technology. How we use things like Facebook and Twitter to understand what life events are happening in people's lives is important, because we still know that the majority of life insurance is bought related to a life event. Also, how do we use these forums to meet more people; to reconnect with people from our past who could become prospects? That's one way we need to leverage technology.

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We also need to leverage technology to improve producer productivity. How can using real-time interviews on the computer help producers see more clients and write more business?

You give us some sobering things to think about. What's going on in the marketplace today? Are there any major trends happening in distribution right now that you folks at LIMRA see?

We've been talking about it for years and showing people the data that the sales force is aging, and that reality is hitting us over the next 10 years. At the same time, we are having more difficulty attracting and retaining new talent. While the numbers on retention have gotten a bit better than they were some years back, it's still a difficult industry to get people to come into, and the survival rate is certainly not what we wish it was. [Also] of those who are staying in the business, less of them are selling risk products and life insurance, in particular.

Again, I use the word "sobering" when you give us a glimpse of the current marketplace. On a short-term basis, is there anything that will affect the industry and the consumers over the next three to five years?

I think that we do have to find ways to get more feet on the street, but also look for alternative ways to leverage up existing producers and help them to see more people. We are also going to have to find new distribution that will get at Middle America. I don't think that necessarily dis-intermediates the producer.

They may be running a call center that's available 24/7, working with a carrier to follow leads that are generated in some other manner — but I do think that we are going to have to find ways to get more messages to more people. I'm optimistic that, with things like simplified issue becoming more a reality, that's a possibility.

While the number of advisors continues to go down, consumers tell LIMRA that they believe there's still value in an advisor, and they cherish that value.

Are there three or four different areas in which consumers are still feeling that advisors play a significant role for them?

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Significant data clearly indicates that people want help and they want face-to-face, although I caution that face-to-face to an X or Y may be on a video monitor or in a chat room — but they want help. When I speak with regulators or legislators, I try to tell them that what the data strongly suggests is advice really matters and we need to find more ways to help people.

LIMRA research has found that consumers who work with advisors are actually more likely to save. Seventy-eight percent of those who have an advisor save systematically, while only 43 percent of those who don't have advisors save. We also know that they save more in qualified plans like 401Ks. Seventy-one percent save 6 percent or more if they have an advisor. Only 43 percent save 6 percent or more without an advisor. These kinds of numbers are very significant statistically.

Pre-retirees and retirees who use an advisor are much more likely to have a retirement plan and, in fact, tell us they feel much more confident about their retirement preparedness. We've known for years that people need help. We always said life insurance is sold; it's not bought. But it turns out that advice matters in having people save systematically.

It continues to be gratifying to me to know that advisors and agencies do make a difference. We just don't have enough people in the market to meet the demand. A lot of advisors will be retiring or selling their businesses in the next 10 years or so. One significant factor seems to be clear: Many of these advisors do not have a succession plan. Bob, any thoughts on that?

Succession planning is a huge factor, and frankly, it's part of how we can resolve some of the issues. In fact, one in four advisors have said they plan to retire or sell their practice in the coming 10 years. Yet only 17 percent of those who are going to retire say they have a written plan. Now, one in three advisors say they won't ever retire, and we know from our consumer studies that about half of Americans actually retire involuntarily, so some of them might be wiser to have a plan. In creating a plan, it takes five to ten years to make it work right, and the advisors who've begun to understand what it takes know it's hard to develop successors.

To make the business valuable in succession planning, you might actually have to migrate what services you offer. Fee income and other ongoing sources of income add more value, so I think more advisors need to create a longer runway for themselves. That would also help more people come into the business, succeed at the business and give consumers in their 40s a better sense of confidence that they're dealing with firms that are going to be in business when they might need them in retirement.

Right. If we can switch gears a little bit, your research determined that there were four best practices that could drive an agent or an advisor's productivity higher by at least 30 percent. Would you comment on those?

The first is **teaming,** a systematic partnering with other advisors in which each has his/her own specialized need. The percentage of advisors teaming with others has actually increased but by only about eight percentage points since 2008. Today, one in five advisors say they team with at least one other advisor and share 20 percent of their revenue.

What teaming means — what level of commitment — is very different across that group, but there are *significant* increases in productivity when people make bigger commitments to teaming. This isn't the old days of simply splitting commissions. It's really forming a joint practice. Often all revenue is split among the teaming partners.

The second is **client specialization,** targeting a specific client segment. Forty-three percent of advisors specialized in a client segment; typically it's by affluence or even by occupation. Part of what we think is important here is they become experts. They become extremely knowledgeable about that client base, and they're able to understand better how to prospect, how to connect to those people and answer some of their systematic questions. Because they know so much about that segment, they can bring more value.

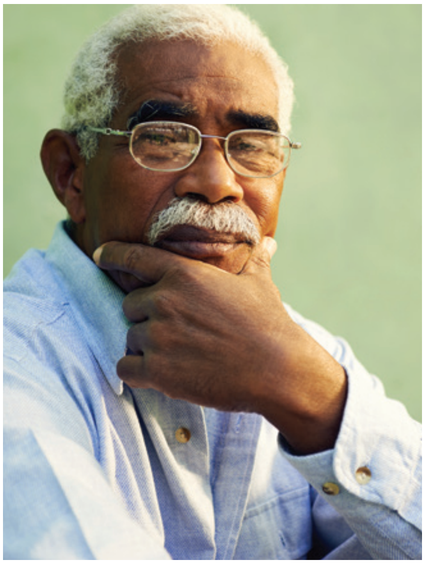
Retirement planning for pre-retirees: The No. 1 issue on most Americans' minds is retirement. Surprisingly, even in the Gen X and Gen Y demographic, about 75 percent of them put retirement as their No. 1 financial objective. When you think of it in those terms, creating a formal retirement plan is really important. While most advisors have not provided their clients with formal retirement plans, our studies found that those who do are 15 percent more productive than those who don't help them create a plan.

The last issue ties back to what I suggested earlier: **knowledge of life events.** There's an increasing awareness that from five to eight life events happen per client in their lifetime. During the experience of such life events as getting married, buying a home, changing a job, getting a promotion and so forth, is when more people make financial decisions and especially decide to buy life insurance.

Knowing when those life events happen correlates to higher productivity. Again, this is where social media can have a real impact. Who do you know well who knows somebody else who might be having one of these life events, and how can I use my knowledge and friendship with you to get to that person and help him understand some of the things he should be thinking about?

Those are really interesting concepts. I was especially struck by your last comment on social media and the constant monitoring of those things that agents and advisors come in contact with every day through that world. It's just really kind of having your antenna up a little bit. As we talk about advisors and what they're selling, we understand that both the investment-oriented and insurance-oriented producers are selling fewer insurance products. From your perspective, why do you think that's happening?

I think there are a lot of reasons. Let me enumerate a couple. Based on our 2012 study, insurance-oriented advisors — those who say, "I predominantly sell life insurance" — are selling 10 percent less life insurance than they did in 2004, and they have migrated to more investment products. Among investment-oriented advisors, it's even worse. They're selling 20 percent less



life-insurance products than they did in 2004.

Of those predominantly working in the investment-oriented space, only about 20 percent say they sell any life insurance at all. If we're going to grow our sale of life insurance, I still think we have to get some of that 80 percent who aren't doing any to sell some risk products. I will hold out some hope that with simplified issue, which I believe you're going to see more companies making available, maybe we can win some of this population. I don't think others should see it as competition. We said earlier our problem is that we don't have enough people talking about life insurance products. We don't have enough advisors really talking about formal retirement plans.

People are worried about retirement, and it's natural that they want to talk about these subjects. Right now, those aspects of the life insurance business, product-wise, that are growing are whole-life and indexed-life insurance. We have migrated over the last three years from selling predominantly products like guaranteed UL, which were how do I spend the least on permanent life insurance, to this migration of permanent life insurance.

Part of what's driving that is people are appreciating in a low-interest environment the benefits of cash value insurance; but it's also a "twofer." They can save some dollars for retirement and get protection. We have to keep thinking, as we're building a practice as an advisor, about what consumers are worried about.

Bob, a lot of this information you're giving comes from this recent financial advisor survey that LIMRA just concluded. What do you think are the most revealing items in that survey?

I think there's one that sticks out. A lot of times, when we talk to the press or read something, there are comments about how financially motivated advisors are when regulators talk about why they're opposed to compensation-based advisory services that work on commission. They believe there is a bias; so we hear a lot about that. What the study actually found is, while compensation is important to advisors in terms of where they actually place their business with a carrier, that isn't the most compelling reason. They look a lot at other factors.

As I think about these things that you've talked about, it leads to one stark conclusion: There's never been more opportunity than right now to make a difference. The number of consumers is up. The needs continue to grow, and we've just got to find a way to help business schools help the public understand that there can be a great career in financial services. I think that's a challenge our industry really has to think about taking on.